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DE RUEHMD #0106/01 0350755
ZNR UUUUU ZZH
R 040755Z FEB 08
FM AMEMBASSY MADRID
TO RUEHC/SECSTATE WASHDC 4179
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHLA/AMCONSUL BARCELONA 3267

UNCLAS SECTION 01 OF 03 MADRID 000106

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E.O. 12958: N/A
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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL/AG UPDATE - JANUARY
28 - FEBRUARY 1

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"WHY THE PAIN IN SPAIN HAS MAINLY BEEN CONTAINED"

11. (U) So reads the FT's Gillian Tett's lead into her insight column. She asks how the big Spanish banks have so far weathered the storm well. She says that Mexico's Central Bank Governor, Guillermo Ortiz, has said that a few years ago, big Spanish banks asked for permission from the regulators to set up Structured Investment Vehicles (SIVs), much like banks from other countries were doing at the time. However, the Spanish regulators insisted on an 8% capital charge against SIV assets, which effectively deterred the banks from creating such entities. The regulators apparently never believed that SIVs were as detached from the banks as claimed. Tett draws two conclusions from this. First, it is beneficial to coordinate bank supervision and central banking. Second, there has been a disconnect between heavily regulated balance sheet activities and virtually no regulation of off balance sheet activities. (Comment: Tett believes that there will be pain in Spain's housing sector and therefore that the real economy will be affected. And she notes that the credit crunch has affected at least medium term Spanish lenders: "Spanish lenders are now furtively turning their mortgage loans into privately placed bonds to use these as collateral to get access to liquidity from the European Central Bank. Meanwhile, the cost of buying insurance against default for medium Spanish lenders via the credit default swap market has recently soared, amid rumors that hedge funds can smell blood." But, nonetheless Tett's reporting about the big banks' health tracks with what the Spanish government and private sector tell the Embassy.) (FT, 2/1/08)

GDP ROSE 3.8 PERCENT IN 2007, SLIGHTLY LESS THAN THE YEAR BEFORE

12. (U) According to the Bank of Spain, the Spanish economy grew 3.8 percent in 2007, slightly less than 2006's growth rate of 3.9 percent. The central bank noted that during the course of the year there was a slight growth rate de-acceleration, evidenced by a 4th quarter figure of 3.5 percent. Despite slowing growth, the Bank of Spain asserted that growth was nonetheless strong. It added that the 2008 growth rate is somewhat more uncertain, particularly given the financial turbulence affecting world markets. (Bank of Spain)

INFLATION RATE STILL HIGHER THAN EU AVERAGE

13. (U) According to Eurostat data, Spain experienced an estimated 4.4 percent inflation rate between January 2007 and January 2008, which is the country's highest inflation rate since 1995. Spain had the highest inflation among major Eurozone economies. With general elections right around the corner, the higher prices of basic consumer goods such as milk, bread, and gasoline has become a central theme. PP representatives have argued that the country needs a change in direction and that the government has been unable to counter inflation, while the PSOE points to the strong GDP growth levels. The inflation rate has doubled since August. (All press)

ECJ LEAVES KEY COPYRIGHT ENFORCEMENT DECISION UP TO MEMBER STATES

14. (U) The Luxembourg-based European Court of Justice (ECJ) issued a ruling on 1/29/08 that held that Spain's Telefonica did not have to divulge the identity of clients to Promusicae (Spain's main music copyright organization) in civil cases.

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However, the ECJ said that while Member States are not obliged to compel Internet Service Providers (ISPs) to divulge data about suspected infringements in civil proceedings, they may if they wish to. Moreover, governments are supposed to ensure a "fair balance" between privacy rights and the legitimate rights of copyright owners to protect their property. Promusicae says that the decision as to whether the data must be disclosed is now in the hands of a Spanish judge. International copyright organizations emphasized the decision's call for a balance between privacy rights and copyrights. (Comment: Copyright owners in Spain and elsewhere are putting a brave face on this decision. However, they are likely disappointed because Members States are now free to develop their own jurisprudence on this key aspect of protecting copyrights in the digital age. It is telling that while both the Financial Times and El Pais reported this story factually, their headlines in effect gave the victory to copyright opponents. The FT headline reads: "Court deals blow to copyright owners." El Pais' headline reads: "European judges rule in favor of privacy on the internet.") (FT, 1/30/08; El Pais, 1/30/08)

BBVA REORGANIZES U.S. OPERATIONS

15. (U) BBVA is integrating four banks it owns in the U.S.: Laredo National Bank, Texas State Bank, and State National Bank will become part of the much larger Compass Bank. Jose Maria Garcia Meyer has been appointed head of Compass and reportedly will also head up the other banking entities BBVA owns in the U.S., including BBVA Puerto Rico, Bancomer Financial Holding and BTS. BBVA hopes that 10% of its profits will come from its U.S. operations in 2008. (Expansion, 1/30/08)

IBERDROLA DEFENDS ITSELF AGAINST POSSIBLE HOSTILE TAKEOVER

16. (U) Iberdrola, one of the world's largest electricity

companies and the world's largest wind power generator, is working out strategies to defend itself against a hostile takeover bid. Specifically, there are rumors that Spanish construction company ACS, which owns 5.2% of Iberdrola's stock, might team up with French energy giant EDF to buy the company. Adding to the media interest are reports of a personal rivalry between Iberdrola CEO Ignacio Sanchez Galan and ACS CEO Florentino Perez. GOS Second Vice President and Finance Minister Pedro Solbes insinuated on 1/31/08 that the GOS would oppose such a bid. He also said that Spain was considerably more liberal than France on the issue of cross-border takeovers. (Comment: The last couple of years have been turbulent for the Spanish energy sector, and the last thing the government would want is a protracted takeover battle for Iberdrola. Given that the French government has recently indicated that it would not allow Societe Generale to fall into non-French hands, the Spanish government probably feels that it is acting within its rights. The "national champion" concept lives on in Spain's socialist government and France's conservative administration.) (FT, 1/31/08; El Pais, 2/1/08)

ACCIONA TO PIONEER NEW CLEAN ENERGY TECHNOLOGY - COMBINING WIND AND WATER TECHNOLOGY

17. (U) Leading energy firm Acciona is implementing a new initiative to harvest hydrogen from offshore wind parks using both water and wind. Hydrogen, seen by the International Energy Agency as an important source of energy for the future, is generally harvested from methane through a process which produces harmful greenhouse gases. Acciona, supported by public-private partnership entity CENIT, will pilot one of its offshore wind parks in Navarra, Spain for a project that would use wind power to separate out hydrogen atoms from ocean water - manipulating two forms of energy sources to create clean energy without the harmful greenhouse gases. (ABC, 1/29/2008)

PROMISE OF JOBS AND MONEY FOR MALI UNDER NEW COOPERATION AGREEMENT

18. (U) Minister of Foreign Affairs Miguel Angel Moratinos signed the first Mixed Commission of Cooperation between Spain and Mali in Bamako on Saturday, January 26 during his tour of Sub Saharan Africa. The agreement will assist Mali in several areas. Two key ones are the temporary employment of 300 Mali's laborers to work in Catalonia in agriculture and grants of 10 million euros a year for three years. This amount does not include the additional offer of small loans, up to 10 million euros, available to associations and young businessmen and women. The Minister was also seeking increased cooperation in the fight against terrorism. (Europa

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Press)

POSSIBLE U.S. MARKETING ORDER ON CLEMENTINES CAUSES CONCERN

19. (U) The Government of Spain has officially expressed concern over the possibility that the U.S. Government might establish a Marketing Order (MO) for Clementines (reftel). The California Clementine Board has, through the California members of the House of Representatives, introduced the possibility of including Spanish Clementines in the list of agricultural products for the application of special import conditions under Section 8e of the Agricultural Marketing Agreement Act of 1937. The vehicle for that introduction is the new farm bill currently in House-Senate conference. If Spanish Clementines are added to the list as a result of the farm bill, the U.S. Department of Agriculture will be required to consider a Marketing Order for all Clementines produced and/or marketed in the United States during a specified period of time (the harvest period for California Clementines).

110. (U) The Spanish are concerned that an MO may pose a

non-tariff barrier for Spanish exports by setting restrictive size and appearance marketing requirements, and have promised to fight MO establishment using all means at its disposal. Among the options, the GOS has alerted the European Commission, and is considering hiring private U.S. attorneys to represent its interests in the MO determination process.

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